

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Howell Township	County Livingston
Fiscal Year End June 30, 2006	Opinion Date September 12, 2006	Date Audit Report Submitted to State December 8, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

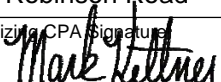
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

Howell Township



Livingston County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2006**



REHMANN ROBSON

Certified Public Accountants

HOWELL TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

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BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

September 12, 2006

Board of Trustees
Township of Howell
Howell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Howell Township, Michigan**, as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Howell Township, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund and each major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Howell Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The following discussion and analysis of Howell Township, Michigan's annual financial report presents our view of the Township's financial performance during the fiscal year that ended June 30, 2006. Please read it in conjunction with the Township's basic financial statements, which follow beginning on page 8.

Financial Highlights

The Township's total net assets increased from \$19.6 million last fiscal year (after restatement) to \$34.3 million this fiscal year.

During the year, the Township's total net assets increased by \$14.7 million.

The General Fund reported a surplus of approximately \$49,000 for the current year and unreserved, undersigned fund balance of over \$807,000.

The Township's total bonded debt increased by roughly \$10.9 million with \$11,830,000 of new debt issued during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public works and community development. The business-type activities of the Township include water and sanitary sewer operations.

The government-wide financial statements can be found on pages 8-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains 4 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and road funds, each of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein for the major governmental funds to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 11-17 of this report.

Proprietary funds. The Township maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise funds to account for its wastewater and water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water operations, both of which are considered to be major funds of the Township. The basic proprietary fund financial statements can be found on pages 18-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on page 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-39 of this report.

Financial Analysis of the Township as a Whole

The Township's combined net assets increased from \$19.6 million to \$34.3 million. The following tables illustrate the results of the governmental and business-type activities.

Howell Township's Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 3,816,672	\$ 2,430,326	\$ 32,037,322	\$ 14,543,323	\$ 35,853,994	\$ 16,973,649
Capital assets	812,219	830,101	21,156,112	13,582,750	21,968,331	14,412,851
Total assets	4,628,891	3,260,427	53,193,434	28,126,073	57,822,325	31,386,500
Long-term liabilities outstanding	22,388	16,483	21,956,818	11,055,237	21,979,206	11,071,720
Other liabilities	632,758	436,855	959,785	561,965	1,592,543	998,820
Total liabilities	655,146	453,338	22,916,603	11,617,202	23,571,749	12,070,540
Net assets:						
Invested in capital assets, net of related debt	812,219	830,101	16,460,214	2,527,513	17,272,433	3,357,614
Restricted	1,958,183	1,077,804	-	-	1,958,183	1,077,804
Unrestricted	1,203,343	899,184	13,816,617	13,981,358	15,019,960	14,880,542
Total net assets	\$ 3,973,745	\$ 2,807,089	\$ 30,276,831	\$ 16,508,871	\$ 34,250,576	\$ 19,315,960

Howell Township's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenue:						
Charges for services	\$ 175,587	\$ -	\$ 13,124,999	\$ -	\$ 13,300,586	\$ 1,170,997
Operating grants and contributions	51,111	-	2,665,691	-	2,716,802	-
Capital grants and contributions	-	-	-	-	-	-
General revenue:						
Property taxes	726,154	-	-	-	726,154	676,535
Grants and contributions not restricted to specific programs	384,860	-	-	-	384,860	375,755
Other	147,356	-	-	-	147,356	1,216,168
Total revenue	<u>1,485,068</u>	<u>-</u>	<u>15,790,690</u>	<u>-</u>	<u>17,275,758</u>	<u>3,439,455</u>
Expenses:						
General government	980,355	-	-	-	980,355	867,099
Public works	312,107	-	-	-	312,107	291,616
Recreation and culture	17,228	-	-	-	17,228	281
Sewer	-	-	1,158,431	-	1,158,431	558,334
Water	-	-	113,299	-	113,299	-
Total expenses	<u>1,309,690</u>	<u>-</u>	<u>1,271,730</u>	<u>-</u>	<u>2,581,420</u>	<u>1,717,330</u>
Increase in net assets before transfers	175,378	-	14,518,960	-	14,694,338	1,722,125
Transfers	751,000	-	(751,000)	-	-	-
Increase (decrease) in net assets	926,378	-	13,767,960	-	14,694,338	1,722,125
Net assets, beginning of year, restated	3,047,367	-	16,508,871	-	19,556,238	17,593,835
Net assets - end of year	<u>\$ 3,973,745</u>	<u>\$ -</u>	<u>\$ 30,276,831</u>	<u>\$ -</u>	<u>\$ 34,250,576</u>	<u>\$ 19,315,960</u>

Net assets of the Township's governmental activities increased by 43 percent to \$34.2 million. This increase is largely due to water and sewer special assessments that will finance the repayment of bonds issued for system construction.

Economic Factors and Next Year's Budget and Rates

The Township's budget for the 2007 fiscal year is balanced with no property tax rate increase. Estimated property tax revenues are expected to increase by approximately \$40,000.

Total expenditures in the general fund for the 2007 fiscal year are estimated to be \$1,168,731. Manager/Zoning Administration, Assessing, and Legal Fees represent the largest components of overall budgeted expenditures with a total estimated combined cost of \$357,553. The largest increased to expenditures for 2007 are increases for Park and Recreation, Health Insurance, Drains, Assessing (hired another assessor) and Elections.

Contacting the Township's Financial Management

This financial report is intended to provide citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Finance Director's office at Howell Township, 3525 Byron Road, Howell, MI 48855.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Howell Township
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,172,755	\$ 8,487,926	\$ 10,660,681
Receivables:			
Note receivable	40,889	-	40,889
State sources	57,918	-	57,918
Advances for future projects	594,047	-	594,047
Special assessments	-	14,192,455	14,192,455
Other	5,589	3,724	9,313
Investment in joint ventures	377,000	9,235,266	9,612,266
Reserves with County	-	555,475	555,475
Other assets	-	130,950	130,950
Internal balances	568,474	(568,474)	-
Capital assets not being depreciated	25,392	3,029,857	3,055,249
Capital assets being depreciated, net	786,827	18,126,255	18,913,082
	<u>4,628,891</u>	<u>53,193,434</u>	<u>57,822,325</u>
Total assets			
	<u>4,628,891</u>	<u>53,193,434</u>	<u>57,822,325</u>
Liabilities			
Accounts payable	632,758	959,785	1,592,543
Long-term liabilities:			
Due in one year	-	1,594,074	1,594,074
Due in more than one year	22,388	20,362,744	20,385,132
	<u>22,388</u>	<u>20,362,744</u>	<u>20,385,132</u>
Total liabilities	<u>655,146</u>	<u>22,916,603</u>	<u>23,571,749</u>
Net assets			
Invested in capital assets, net of related debt	812,219	16,460,214	17,272,433
Restricted for special purposes	1,958,183	-	1,958,183
Unrestricted	1,203,343	13,816,617	15,019,960
	<u>1,203,343</u>	<u>13,816,617</u>	<u>15,019,960</u>
Total net assets	<u>\$ 3,973,745</u>	<u>\$ 30,276,831</u>	<u>\$ 34,250,576</u>

The accompanying notes are an integral part of these financial statements.

**Howell Township
Statement of Activities
For the Year Ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 980,355	\$ 174,743	\$ -	\$ -	\$ (805,612)
Public safety	-	844	51,111	-	51,955
Public works	312,107	-	-	-	(312,107)
Recreation and culture	17,228	-	-	-	(17,228)
Total governmental activities	<u>1,309,690</u>	<u>175,587</u>	<u>51,111</u>	<u>-</u>	<u>(1,082,992)</u>
Business-type activities:					
Sewer	1,158,431	9,417,203	419,758	-	8,678,530
Water	113,299	3,707,796	2,245,933	-	5,840,430
Total business-type activities	<u>1,271,730</u>	<u>13,124,999</u>	<u>2,665,691</u>	<u>-</u>	<u>14,518,960</u>
 Total primary government	 <u>\$ 2,581,420</u>	 <u>\$ 13,300,586</u>	 <u>\$ 2,716,802</u>	 <u>\$ -</u>	 <u>13,435,968</u>

continued...

Howell Township
Statement of Activities (Concluded)
For the Year Ended June 30, 2006

Functions/Programs	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (1,082,992)	\$ 14,518,960	\$ 13,435,968
General revenues:			
Property taxes	726,154	-	726,154
State shared revenue	384,860	-	384,860
Unrestricted investment earnings	43,373	-	43,373
Franchise fees	28,073	-	28,073
Income from joint ventures	22,950	-	22,950
Other	52,960	-	52,960
Transfers - internal activities	751,000	(751,000)	-
Total general revenues and transfers	2,009,370	(751,000)	1,258,370
Change in net assets	926,378	13,767,960	14,694,338
Net assets, beginning of year, as restated	3,047,367	16,508,871	19,556,238
Net assets, end of year	\$ 3,973,745	\$ 30,276,831	\$ 34,250,576

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**Howell Township
Balance Sheet
Governmental Funds
June 30, 2006**

	General	Road	Nonmajor Governmental Funds	Total
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 748,472	\$ 1,176,926	\$ 247,357	\$ 2,172,755
Receivables:				
Note	40,889	-	-	40,889
State sources	57,918	-	-	57,918
Advances to future projects	594,047	-	-	594,047
Other	5,589	-	-	5,589
Due from other funds	32,891	-	553,474	586,365
<u>TOTAL ASSETS</u>	\$ 1,479,806	\$ 1,176,926	\$ 800,831	\$ 3,457,563
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 74,921	\$ 1,683	\$ -	\$ 76,604
Accrued and other liabilities	800	-	-	800
Escrow payable	555,354	-	-	555,354
Due to other funds	-	17,891	-	17,891
Deferred revenue	40,889	-	-	40,889
Total liabilities	671,964	19,574	-	691,538
Fund balances				
Reserved for road construction	-	1,157,352	-	1,157,352
Unreserved, reported in -				
Special revenue funds	-	-	800,831	800,831
Undesignated	807,842	-	-	807,842
Total fund balances	807,842	1,157,352	800,831	2,766,025
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 1,479,806	\$ 1,176,926	\$ 800,831	\$ 3,457,563

The accompanying notes are an integral part of these financial statements.

Howell Township
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$ 2,766,025
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets, net	812,219
Joint venture assets reported in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: investment in joint ventures	377,000
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add: deferred long-term receivables	40,889
Certain liabilities, such as accrued interest payable and bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: compensated absences	<u>(22,388)</u>
Net assets of governmental activities	<u><u>\$ 3,973,745</u></u>

The accompanying notes are an integral part of these financial statements.

Howell Township
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Road	Nonmajor Governmental Funds	Total
Revenue				
Taxes	\$ 398,867	\$ 302,893	\$ -	\$ 701,760
Licenses and permits	113,976	-	-	113,976
State shared revenue	384,860	-	-	384,860
Charges for services	8,509	-	-	8,509
Refunds and reimbursements	81,175	-	-	81,175
Interest and other revenue	87,498	31,444	1,785	120,727
Total revenue	1,074,885	334,337	1,785	1,411,007
Expenditures				
Current:				
General government	948,316	-	-	948,316
Public works	57,318	254,789	-	312,107
Recreation and culture	144	-	5,500	5,644
Capital outlay	8,252	-	11,584	19,836
Total expenditures	1,014,030	254,789	17,084	1,285,903
Revenue over (under) expenditures	60,855	79,548	(15,299)	125,104
Other financing sources (uses)				
Note proceeds	10,222	-	-	10,222
Transfers in	6,000	-	773,000	779,000
Transfers out	(28,000)	-	-	(28,000)
Total other financing sources (uses)	(11,778)	-	773,000	761,222
Net change in fund balances	49,077	79,548	757,701	886,326
Fund balances, beginning of year	758,765	1,077,804	43,130	1,879,699
Fund balances, end of year	\$ 807,842	\$ 1,157,352	\$ 800,831	\$ 2,766,025

The accompanying notes are an integral part of these financial statements.

Howell Township
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 886,326
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	19,743
Deduct: depreciation expense	(37,625)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Add: increase in deferred long-term receivables	51,111
Deduct: payments received on deferred long-term receivables	(10,222)

Joint venture income reported in governmental activities is not reported in the funds.

Add: income from joint venture	22,950
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	(5,905)
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Change in net assets of governmental activities	<u><u>\$ 926,378</u></u>
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The accompanying notes are an integral part of these financial statements.

Howell Township
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Amended Budget and Actual
General Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenue				
Property taxes	\$ 393,139	\$ 393,139	\$ 398,867	\$ 5,728
State sources	397,589	397,589	384,860	(12,729)
Interest income	12,322	12,322	16,500	4,178
Cable TV franchise fee	25,000	25,000	28,073	3,073
Nonbusiness licenses, permits and fees	22,200	22,200	31,789	9,589
Collection fees	9,933	9,933	10,950	1,017
Zoning fees	30,000	30,000	28,970	(1,030)
Zoning Appeal Board	3,000	3,000	9,600	6,600
Reimbursed fire runs	-	-	844	844
Refunds and reimbursements	50	50	81,175	81,125
Land division fees	4,800	4,800	3,750	(1,050)
Charges for services	18,700	18,700	8,509	(10,191)
Other	22,800	22,800	70,998	48,198
Total revenue	939,533	939,533	1,074,885	135,352
Expenditures				
General government:				
Township Board	29,840	29,840	25,353	(4,487)
Supervisor	28,900	28,900	28,026	(874)
Clerk	70,966	70,966	70,950	(16)
Manager	125,250	125,250	121,247	(4,003)
Election expenses	20,000	13,500	5,103	(8,397)
Treasurer	32,026	31,426	30,960	(466)
Finance director	41,500	41,500	38,328	(3,172)
Professional services:				
Legal	100,000	189,600	216,656	27,056
Other	22,000	20,500	36,260	15,760
Tax roll preparation	6,000	6,000	4,192	(1,808)
Township Hall expenses	21,400	23,400	23,006	(394)
Township general expenses	87,495	87,495	84,328	(3,167)
Cemetery and memorials	8,000	8,000	7,927	(73)
Planning Commission	26,300	19,300	17,078	(2,222)
Planning consultant	24,500	16,000	14,797	(1,203)
Board of Appeals	6,150	6,150	5,866	(284)
Board of Review	2,450	2,450	1,955	(495)
Payroll taxes	35,000	35,000	33,151	(1,849)
Assessor	98,537	80,537	78,137	(2,400)
Insurance	15,500	15,500	15,245	(255)
Economic development	2,500	2,500	5,000	2,500
Employees' life insurance	21,200	21,200	21,490	290
Retirement	65,000	60,000	62,496	2,496
Meetings	1,080	1,080	765	(315)
Other	10,000	-	-	-
Total general government	901,594	936,094	948,316	12,222

continued...

Howell Township
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Amended Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Budget
Public works:				
Street lighting	\$ 4,700	\$ 4,700	\$ 3,906	\$ (794)
Drains	71,500	53,000	51,730	(1,270)
Engineering	8,000	3,000	1,682	(1,318)
Total public works	<u>84,200</u>	<u>60,700</u>	<u>57,318</u>	<u>(3,382)</u>
Recreation and cultural	<u>4,575</u>	<u>4,575</u>	<u>144</u>	<u>(4,431)</u>
Capital outlay	<u>20,000</u>	<u>9,000</u>	<u>8,252</u>	<u>(748)</u>
Total expenditures	<u>1,010,369</u>	<u>1,010,369</u>	<u>1,014,030</u>	<u>3,661</u>
Revenue over (under) expenditures	<u>(70,836)</u>	<u>(70,836)</u>	<u>60,855</u>	<u>131,691</u>
Other financing sources (uses)				
Note proceeds	8,678	8,678	10,222	1,544
Transfers in	6,000	6,000	6,000	-
Transfers out	<u>(28,000)</u>	<u>(28,000)</u>	<u>(28,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(13,322)</u>	<u>(13,322)</u>	<u>(11,778)</u>	<u>1,544</u>
Net change in fund balances	<u>(84,158)</u>	<u>(84,158)</u>	<u>49,077</u>	<u>133,235</u>
Fund balance, beginning of year	<u>758,765</u>	<u>758,765</u>	<u>758,765</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 674,607</u></u>	<u><u>\$ 674,607</u></u>	<u><u>\$ 807,842</u></u>	<u><u>\$ 133,235</u></u>

The accompanying notes are an integral part of these financial statements.

Howell Township
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Amended Budget and Actual
Road Special Revenue Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenue				
Taxes	\$ 296,783	\$ 296,783	\$ 302,893	\$ 6,110
Interest and other revenue	8,000	8,000	31,444	23,444
Total revenue	304,783	304,783	334,337	29,554
Expenditures				
Public works:				
Maintenance	500,000	500,000	194,374	(305,626)
Chloride	80,000	80,000	60,415	(19,585)
Street lighting	50,000	50,000	-	(50,000)
Total expenditures	630,000	630,000	254,789	(375,211)
Net change in fund balances	(325,217)	(325,217)	79,548	404,765
Fund balances, beginning of year	1,077,804	1,077,804	1,077,804	-
Fund balances, end of year	\$ 752,587	\$ 752,587	\$ 1,157,352	\$ 404,765

The accompanying notes are an integral part of these financial statements.

Howell Township
Statement of Net Assets
Enterprise Funds
June 30, 2006

	Sewer	Water	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 4,755,794	\$ 3,732,132	\$ 8,487,926
Accounts receivable	3,724	-	3,724
Reserves with County	523,555	31,920	555,475
Unamortized bond issuance costs	103,274	27,676	130,950
Total current assets	<u>5,386,347</u>	<u>3,791,728</u>	<u>9,178,075</u>
Noncurrent assets:			
Special assessments receivable	9,452,735	4,739,720	14,192,455
Equity in MHOG	-	9,235,266	9,235,266
Capital assets, net	16,012,666	5,143,446	21,156,112
	<u>25,465,401</u>	<u>19,118,432</u>	<u>44,583,833</u>
 Total assets	 <u>30,851,748</u>	 <u>22,910,160</u>	 <u>53,761,908</u>
Liabilities			
Current liabilities:			
Accounts payable	577,152	245,620	822,772
Interest payable	78,627	58,386	137,013
Due to other funds	553,474	15,000	568,474
Bonds payable, current portion	565,000	75,000	640,000
Leases payable, current portion	705,000	249,074	954,074
Total current liabilities	<u>2,479,253</u>	<u>643,080</u>	<u>3,122,333</u>
Long-term debt			
Bonds payable, net of current portion	8,184,838	6,262,484	14,447,322
Leases payable, net of current portion	3,905,000	2,010,422	5,915,422
Total long-term debt	<u>12,089,838</u>	<u>8,272,906</u>	<u>20,362,744</u>
 Total liabilities	 <u>14,569,091</u>	 <u>8,915,986</u>	 <u>23,485,077</u>
Net assets			
Invested in capital assets, net of related debt	7,398,398	9,061,816	16,460,214
Unrestricted	8,884,259	4,932,358	13,816,617
 Total net assets	 <u><u>\$ 16,282,657</u></u>	 <u><u>\$ 13,994,174</u></u>	 <u><u>\$ 30,276,831</u></u>

The accompanying notes are an integral part of these financial statements.

Howell Township
Statement of Revenues, Expenses and
Changes in Net Assets
Enterprise Funds
For the Year Ended June 30, 2006

	Sewer	Water	Totals
Operating revenue			
Charges for services	\$ 628,760	\$ 669,340	\$ 1,298,100
Other	7,132	-	7,132
	<hr/>	<hr/>	<hr/>
Total operating revenue	635,892	669,340	1,305,232
	<hr/>	<hr/>	<hr/>
Operating expenses			
Public works	460,032	1,510	461,542
Depreciation	339,544	44,288	383,832
	<hr/>	<hr/>	<hr/>
Total operating expenses	799,576	45,798	845,374
	<hr/>	<hr/>	<hr/>
Operating income (loss)	(163,684)	623,542	459,858
	<hr/>	<hr/>	<hr/>
Nonoperating revenue (expense)			
Special assessments	8,791,544	3,038,456	11,830,000
Interest revenue	409,525	367,679	777,204
Interest expense	(357,345)	(69,011)	(426,356)
Change in equity of MHOG	-	1,878,254	1,878,254
	<hr/>	<hr/>	<hr/>
Total nonoperating revenue	8,843,724	5,215,378	14,059,102
	<hr/>	<hr/>	<hr/>
Income before transfers	8,680,040	5,838,920	14,518,960
	<hr/>	<hr/>	<hr/>
Transfers in	-	5,000	5,000
	<hr/>	<hr/>	<hr/>
Transfers out	(6,000)	(750,000)	(756,000)
	<hr/>	<hr/>	<hr/>
Change in net assets	8,674,040	5,093,920	13,767,960
	<hr/>	<hr/>	<hr/>
Net assets, beginning of year, as restated	7,608,617	8,900,254	16,508,871
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ 16,282,657	\$ 13,994,174	\$ 30,276,831
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

**Howell Township
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2006**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers, residents and users	\$ 734,503	\$ 681,831	\$ 1,416,334
Cash paid to suppliers	<u>652,387</u>	<u>226,542</u>	<u>878,929</u>
Net cash provided by operating activities	<u>1,386,890</u>	<u>908,373</u>	<u>2,295,263</u>
Cash flows from capital and related financing activities			
Proceeds from issuance of long-term debt	8,791,544	3,038,456	11,830,000
Payment of debt original issue discount	(41,706)	(972)	(42,678)
Payment of debt issuance costs	(108,656)	(29,186)	(137,842)
Principal paid on long-term debt	(670,000)	(215,741)	(885,741)
Interest payments on long-term debt	(450,179)	(343,462)	(793,641)
Collections on special assessments	324,339	353,810	678,149
Purchase of capital assets	<u>(4,994,246)</u>	<u>(2,962,948)</u>	<u>(7,957,194)</u>
Net cash provided by (used in) capital and related financing activities	<u>2,851,096</u>	<u>(160,043)</u>	<u>2,691,053</u>
Cash flows from noncapital financing activities			
Transfers from other funds	-	5,000	5,000
Transfers to other funds	<u>(6,000)</u>	<u>(750,000)</u>	<u>(756,000)</u>
Net cash used by noncapital financing activities	<u>(6,000)</u>	<u>(745,000)</u>	<u>(751,000)</u>
Cash flows from investing activities			
Interest income received	<u>409,525</u>	<u>367,679</u>	<u>777,204</u>
Net increase (decrease) in cash and cash equivalents	4,641,511	371,009	5,012,520
Cash and cash equivalents, beginning of year	<u>114,283</u>	<u>3,361,123</u>	<u>3,475,406</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,755,794</u></u>	<u><u>\$ 3,732,132</u></u>	<u><u>\$ 8,487,926</u></u>

Continued...

Howell Township
Statement of Cash Flows (Concluded)
Enterprise Funds
For the Year Ended June 30, 2006

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (163,684)	\$ 623,542	\$ 459,858
Depreciation	339,544	44,288	383,832
Amortization of bond issuance costs	5,382	1,510	6,892
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
(Increase) decrease in:			
Accounts receivable	4,144	-	4,144
Reserves with County	6,867	(5,869)	998
Due from other funds	87,600	18,360	105,960
Increase (decrease) in:			
Accounts payable	565,467	245,620	811,087
Due to other funds	<u>541,570</u>	<u>(19,078)</u>	<u>522,492</u>
Net cash provided by operating activities	<u><u>\$ 1,386,890</u></u>	<u><u>\$ 908,373</u></u>	<u><u>\$ 2,295,263</u></u>

Non-cash transactions

During the year, the Township's equity in the Marion, Howell, Ocala and Genoa Sewer and Water Authority increased \$1,878,254. This transaction did not involve cash.

The accompanying notes are an integral part of these financial statements.

Howell Township
Statement of Fiduciary Net Assets
June 30, 2006

	Trust & Agency Fund	Current Tax Fund	Health Flex	Total
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 254,364	\$ 1,703	\$ 7,564	\$ 263,631
<u>LIABILITIES</u>				
Liabilities				
Accounts and deposits payable	\$ 250,779	\$ 1,598	\$ 7,564	259,941
Due to other governments	3,585	105	-	3,690
Total liabilities	\$ 254,364	\$ 1,703	\$ 7,564	\$ 263,631

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Howell Township (the “government” or “Township”) is governed by an elected seven-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the respective fund financial statements.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *road special revenue fund* accounts for the collection of property taxes and expenditures related to the extra voted road mileage.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

The government reports the following major proprietary funds:

The *sewer enterprise fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water enterprise fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the government reports the following fund type:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

The *agency funds* account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
System infrastructure	30-50
Vehicles	3-30
Equipment	5-15

4. Compensated absences

It is the Township's policy to permit employees to accumulate earned but unused vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted at the activity level for all governmental fund types each fiscal year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to April 1st of each year.

Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2006, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General government:			
Professional services:			
Legal	\$ 189,600	\$ 216,656	\$ 27,056
Other	20,500	36,260	15,760
Economic development	2,500	5,000	2,500
Employees' life insurance	21,200	21,490	290
Retirement	60,000	62,496	2,496

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 10,660,681
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Statement of Fiduciary Net Assets:

Cash and cash equivalents	<u>263,631</u>
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\$ 10,924,312

Classification of Deposits and Investments:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 10,923,966
Cash on hand	<u>346</u>

\$ 10,924,312

Deposit and investment risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$11,211,110 of the Township's bank balance of \$11,616,048 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township had no investments that required credit risk ratings at year end.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk.

B. Reserves with County

In addition to the balances accumulated in the Township's water and sewer funds, there are also funds maintained by the County, since the County administers certain water and sewer projects for the Township.

The Township's portions of each of the County-maintained funds at June 30, 2006, are as follows:

Sewer Funds:

Howell Township Maintenance and Operation	\$ 417,296
Howell Township Sanitary Sewer – District 8	7,035
Howell Township Sanitary Sewer Improvements	94,746
Howell Township Sanitary Sewer 2001 Extension	4,478

Construction Funds:

Howell Joint Township Water System	3,501
Treatment Plant Series "D"	10,339
Treatment Plant Series "E"	<u>18,080</u>

Total reserves	<u>\$ 555,475</u>
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HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2006, was as follows

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated - land	<u>\$ 25,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,392</u>
Capital assets being depreciated:				
Buildings and improvements	804,110	-	-	804,110
Furniture and equipment	<u>176,559</u>	<u>19,743</u>	<u>-</u>	<u>196,302</u>
Total capital assets being depreciated	<u>980,669</u>	<u>19,743</u>	<u>-</u>	<u>1,000,412</u>
Less accumulated depreciation for:				
Buildings and improvements	107,215	26,804	-	134,019
Furniture and equipment	<u>68,745</u>	<u>10,821</u>	<u>-</u>	<u>79,566</u>
Total accumulated depreciation	<u>175,960</u>	<u>37,625</u>	<u>-</u>	<u>213,585</u>
Total capital assets being depreciated, net	<u>804,709</u>	<u>(17,882)</u>	<u>-</u>	<u>786,827</u>
Governmental activities capital assets, net	<u>\$ 830,101</u>	<u>\$ (17,882)</u>	<u>\$ -</u>	<u>\$ 812,219</u>

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets not being depreciated				
Construction in process	<u>\$ 1,898,531</u>	<u>\$ 1,131,326</u>	<u>\$ -</u>	<u>\$ 3,029,857</u>
Capital assets being depreciated				
Sewer system	12,022,339	4,954,877	-	16,977,216
Water system	<u>343,427</u>	<u>1,870,991</u>	<u>-</u>	<u>2,214,418</u>
Total capital assets being depreciated	<u>12,365,766</u>	<u>6,825,868</u>	<u>-</u>	<u>19,191,634</u>
Less accumulated depreciation for:				
Sewer system	664,375	339,544	-	1,003,919
Water system	<u>17,172</u>	<u>44,288</u>	<u>-</u>	<u>61,460</u>
Total accumulated depreciation	<u>681,547</u>	<u>383,832</u>	<u>-</u>	<u>1,065,379</u>
Total capital assets being depreciated, net	<u>11,684,219</u>	<u>6,442,036</u>	<u>-</u>	<u>18,126,255</u>
Business-type activities capital assets, net	<u>\$ 13,582,750</u>	<u>\$ 7,573,362</u>	<u>\$ -</u>	<u>\$ 21,156,112</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	<u>\$ 37,625</u>
Business-type activities:	
Sewer	\$ 339,544
Water	<u>44,288</u>
Total depreciation expense – business-type activities	<u>\$ 383,832</u>

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

D. Payables

Payables (all governmental and business-type activities) are 100 percent vendors.

E. Long-term debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities. These bonds are reported in the proprietary funds because they are expected to be repaid from proprietary fund revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Business-type Activities:

\$3,375,000 Livingston County Joint Water System – System B due in annual installments of \$175,000 through May 1, 2014, interest at 4.38%	\$ 1,400,000
\$625,000 Livingston County Joint Water System - System D due in annual installments of \$39,352 through June 1, 2016, interest at 5.125% to 5.250%	393,521
\$743,750 Livingston County Joint Water System - Series E due in annual installments of \$34,722 to \$53,472 through June 1, 2016, interest at 5.200% to 5.375%	465,975
\$7,210,000 Wastewater Treatment Plant due in annual installments of \$640,000 to \$790,000 through June 1, 2011, interest at 4.960%	3,565,000
\$1,320,000 Sanitary Sewer Drain Bonds, Series 2001 due in annual installments of \$65,000 to \$70,000 through June 1, 2021, interest at 3.875% to 4.900%	1,045,000

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

\$3,300,000 2004 General Obligation Limited Tax Bonds
due in annual installments of \$75,000 to \$275,000
through May 1, 2026, interest at 3.000% to 4.750% \$ 3,300,000

\$9,995,000 2005 Special Assessment Limited Tax Bonds
due in annual installments of \$525,000 to \$545,000 through
May 1, 2025, interest at 3.500% to 5.000% 9,995,000

\$1,835,000 2006 Special Assessment Limited Tax Bonds
due in annual installments of \$20,000 to \$100,000 through
May 1, 2026, interest at 3.500% to 4.400% 1,835,000

Total Bonds Payable **\$21,999,496**

Annual debt service requirements to maturity for bonds are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 1,594,074	\$ 948,797	\$ 2,542,871
2008	1,675,324	878,335	2,553,659
2009	1,735,324	804,930	2,540,254
2010	1,775,325	729,123	2,504,448
2011	1,830,325	648,982	2,479,307
2012-2016	5,139,124	2,474,362	7,613,486
2017-2021	4,400,000	1,424,929	5,824,929
2022-2026	3,850,000	478,581	4,328,581
	\$ 21,999,496	\$ 8,388,039	\$ 30,387,535

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities -					
Compensated absences	<u>\$ 16,483</u>	<u>\$ 5,905</u>	<u>\$ -</u>	<u>\$ 22,388</u>	<u>\$ -</u>
Business-type activities:					
General obligation bonds	\$ 11,055,237	\$ 11,830,000	\$ 885,741	\$ 21,999,496	\$ 1,594,074
Less - unamortized bond discount	<u>-</u>	<u>(44,924)</u>	<u>(2,246)</u>	<u>(42,678)</u>	<u>-</u>
Total business-type activities	<u>\$ 11,055,237</u>	<u>\$ 11,785,076</u>	<u>\$ 883,495</u>	<u>\$ 21,956,818</u>	<u>\$ 1,594,074</u>

For the governmental activities, compensated absences are liquidated by the general fund.

F. Interfund receivables, payables and transfers

At June 30, 2006, interfund receivables and payables were as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 32,891	\$ -
Road special revenue	-	17,891
Sewer enterprise	-	553,474
Water enterprise	-	15,000
Nonmajor governmental funds	<u>553,474</u>	<u>-</u>
	<u>\$ 586,365</u>	<u>\$ 586,365</u>

The above balances generally resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

For the year ended June 30, 2006, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer in</u>	<u>Transfer out</u>
General	\$ 6,000	\$ 28,000
Sewer enterprise	-	6,000
Water enterprise	5,000	750,000
Nonmajor governmental funds	773,000	-
	<u>\$ 784,000</u>	<u>\$ 784,000</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

G. Joint ventures

Marion, Howell, Oceola and Genoa Sewer and Water Authority

The Township is a member of the Marion, Howell, Oceola and Genoa Sewer and Water Authority (the "Authority" or "MHOG"). The Authority was incorporated by the townships of Marion, Howell, Oceola and Genoa. The Authority is responsible for the operations of the joint water systems.

Howell Township's equity in this joint venture as of June 30, 2006 is \$9,235,266 which is recorded in the water fund and on the government-wide statement of net assets.

The Authority is currently doing a substantial expansion of its capacity at a cost of \$10,000,000. At this time, a determination of the funding sources for this expansion has not been finalized. Potential sources of funding for the expansion include bonds issued by the Authority which could be repaid from connection fees, operating rates, or contributions from member communities, or a combination thereof. Alternatively, each member community may be required to contribute its share of the expansion, which may require the members to issue their own bonds or utilize other cash reserves.

Other than the potential contribution for the expansion discussed above, the Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments of the joint venture in the foreseeable future.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

Complete financial statements for the Marion, Howell, Oceola and Genoa Sewer and Water Authority can be obtained from the administrative offices at the Township of Oceola, Livingston County, Michigan. Authority balances as of June 30, 2006 are as follows:

Total assets	\$ 37,450,094
Total liabilities	509,030
Total net assets	36,941,064
Total revenue	1,876,987
Total expenses	1,879,919

Howell Area Fire Authority

The Township is a member of the Howell Area Fire Authority, which was jointly incorporated by the City of Howell, Cohoctah Township, Marion Township, Oceola Township and Howell Township (the "Municipalities") for the purpose of providing fire protection and other emergency health and safety services to the Municipalities. The Township appoints a member to the joint venture's governing board, which approves the annual budget. During the prior fiscal year, the funding for the Authority changed from contributions from the Municipalities to a dedicated taxpayer-approved millage. The Township's equity interest in the joint venture at June 30, 2006 is \$377,000 which is recorded within the governmental activities column in the statement of net assets. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the foreseeable future. Complete financial statements of the Authority can be obtained from the administrative offices at the Township of Howell, Michigan. Authority balances as of December 31, 2005 are as follows:

Total assets	\$ 1,938,182
Total liabilities	156,519
Total net assets	1,781,663
Total revenue	2,058,994
Total expenses	1,950,534

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

IV. OTHER INFORMATION

A. Property taxes

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the general fund and road special revenue fund reflect the 2005 Township levies of .8965 mills and .9532 mills, respectively, on the taxable valuation of property located in the Township as of the preceding December 31. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$311,354,798. The 2005 levy became a lien on properties on December 1, 2005, and was substantially collected in early 2006. Taxes became delinquent on March 1, 2006.

B. Defined contribution pension plan

The Howell Township Pension Plan provides pension benefits for all Township officials and all other employees who work at least 24 hours per week on a regular basis, and who choose to belong to the plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's accounts and the returns on the investments of those contributions.

As established by the Township Board, the Township contributes 15 percent of employees' gross earnings. Additionally, participants may contribute up to 10 percent of gross earnings on an after tax basis. In accordance with these requirements, the Township contributed \$61,204 during the year. No amounts were contributed by the participants.

C. Subsequent events

Subsequent to June 30, 2006, the Township issued \$4.5 million in refunding and capital improvement bonds. This refunding will release Livingston County from any obligation for the refunding debt and will terminate the capital lease obligation between the Township and County.

HOWELL TOWNSHIP, MICHIGAN

Notes To Financial Statements

D. Restatements

Previously, the water and sewer enterprise funds were reported as governmental funds. Effective for fiscal year 2006, the Township now reports these funds as enterprise funds. As a result of this change, beginning fund balance of the sewer fund changed from \$189,977 to \$7,672,827 of net assets. Also, beginning net assets was decreased by \$6,753 to account for the sewer agency fund now being reported as part of the sewer enterprise fund and was decreased by \$57,457 to reflect the over-accrual of special assessment revenue in the prior year.

In addition, beginning fund balance of the water fund changed from \$1,299,027 to \$6,549,390 of net assets. Also, beginning net assets was increased by \$2,046,378 to account for the water construction/MHOG and capital projects funds now being reported as part of the water enterprise fund and was increased by \$304,486 to reflect the under-accrual of special assessment revenue in the prior year.

* * * * *

COMBINING FUND FINANCIAL STATEMENTS

Howell Township
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Township</u>	<u>Parks and</u>	
	<u>Improvement</u>	<u>Recreation</u>	<u>Total</u>
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 197,808	\$ 49,549	\$ 247,357
Due from other funds	553,474	-	553,474
<hr/>			
<u>TOTAL ASSETS</u>	<u>\$ 751,282</u>	<u>\$ 49,549</u>	<u>\$ 800,831</u>
<hr/>			
<u>FUND BALANCES</u>			
Fund balances			
Unreserved, undesignated	\$ 751,282	\$ 49,549	\$ 800,831
<hr/>			

Howell Township
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue Funds		
	Township Improvement	Parks and Recreation	Total
Revenue			
Interest and other revenue	\$ 1,282	\$ 503	\$ 1,785
Expenditures			
Current:			
Recreation and culture	-	5,500	5,500
Capital outlay	-	11,584	11,584
Total expenditures	-	17,084	17,084
Revenue over (under) expenditures	1,282	(16,581)	(15,299)
Other financing sources			
Transfers in	750,000	23,000	773,000
Net change in fund balances	751,282	6,419	757,701
Fund balances, beginning of year	-	43,130	43,130
Fund balances, end of year	\$ 751,282	\$ 49,549	\$ 800,831



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



September 12, 2006

To the Board of Trustees
Township of Howell

We have audited the financial statements of Howell Township for the year ended June 30, 2006, and have issued our report thereon dated September 12, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 11, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Howell Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Howell Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Howell Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Howell Township's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed several adjustments, which all were recorded by management, and in our judgment had a significant effect on the Township.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Howell Township' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

Township of Howell

Comments and Recommendations

For the Year Ended June 30, 2006

During our audit we became aware of certain issues regarding internal control, operating efficiency and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated September 12, 2006 on the financial statements of the Township of Howell.

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Township's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Township's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Township of Howell

Comments and Recommendations (Concluded)

For the Year Ended June 30, 2006

Other Internal Control Considerations

In addition to the general control environment considerations identified above, the following specific matters came to our attention during the audit:

Payroll Processing – During our testing of the payroll system, we noted that timesheets were not approved and signed by an appropriate supervisor prior to payroll processing. In addition, current procedures do not include an independent review and approval of the payroll register prior to the distribution of pay checks. We recommend that an approval process be put into place to ensure that individuals are being paid the correct amount.

Purchasing and Accounts Payable – During our testing of the cash disbursement system, it was brought to our attention that new vendors are not approved by someone other than the individual responsible for processing accounts payable. We recommend that the Township make it policy that new vendors are approved by someone other than the accounts payable clerk to ensure fictitious vendors are not entered into the system.

Water and Sewer Activity

Previously, water and sewer activity has been accounted for in governmental funds. In order to properly account for this activity, water and sewer enterprise funds should be set up on the Township's accounting system and all of this activity should run through these 2 funds. The State recommends fund # 590 for the sewer enterprise fund and fund # 591 for the water enterprise fund. In addition, the sewer agency fund should be collapsed into the sewer fund and the water construction/MHOG and capital project funds should be collapsed into the water fund. Also, all future bond issues and capital projects must be recorded in the enterprise funds and not in debt service and capital project funds.

* * * * *